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144a Securities

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What are they?

- 144A securities are private placement or restricted securities that are not registered with the SEC
  - In order to avoid registration, these securities must comply with the standards of the SEC's Rule 144A
  - Rule 144A is an exemption from the registration requirements of Section 5 of the Securities Act of 1933, allowing for "private resales of securities to institutions"
  - Although a resale exemption, 144A is most frequently used for institutional private placements of debt and asset-backed securities

- The purchaser of 144A securities must be a Qualified Institutional Buyer ("QIB)
  - A QIB must have a minimum of $100 million in assets ben eligible purchaser
    - Most large institutional investors qualify as a QIB
  - Institutional investors who are QIBs can trade the 144A securities amongst themselves, but "retail" investors (the public) are not permitted to purchase them

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Growing Popularity

The makeup of the high yield universe has morphed to one with a much higher percentage of 144a issuance.

The majority of new issuances in the high yield fixed income market have been in the form of 144A securities

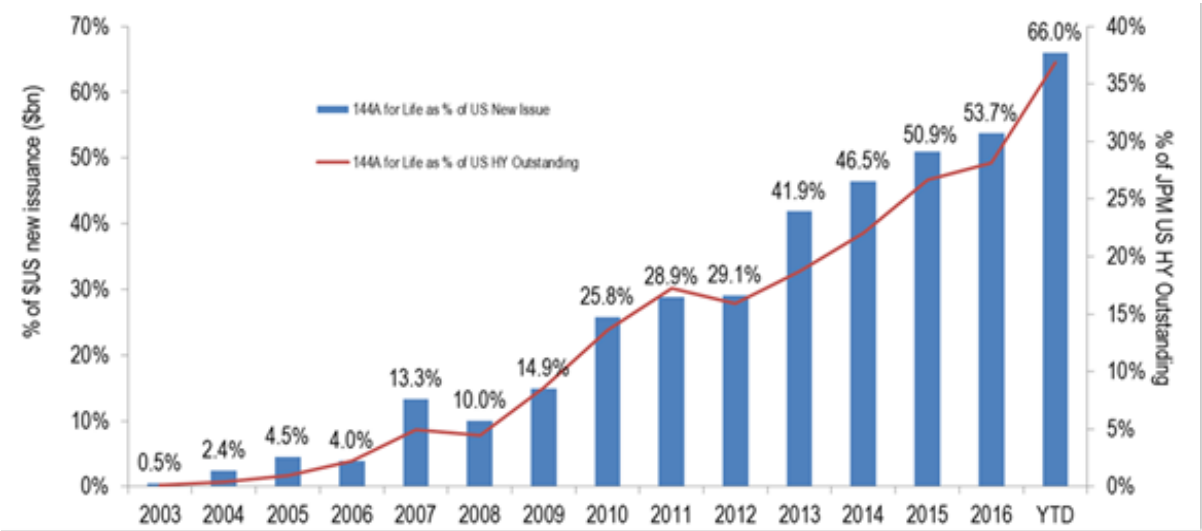
- As a result, the current percentage of 144A securities represented in the high yield market has grown to approximately 37%

Advantages for issuers:

- Avoid the time consuming regulatory process required by the SEC for registered securities
  This often takes months to complete
- Allow issuers to issue debt quickly when rates become attractive

Increasing number of “144A for life” issues without registration rights

- Market has been accepting of the issuance
- Potential yield disadvantage to issuer trades off well against costly and lengthy registration process



Source: JP Morgan

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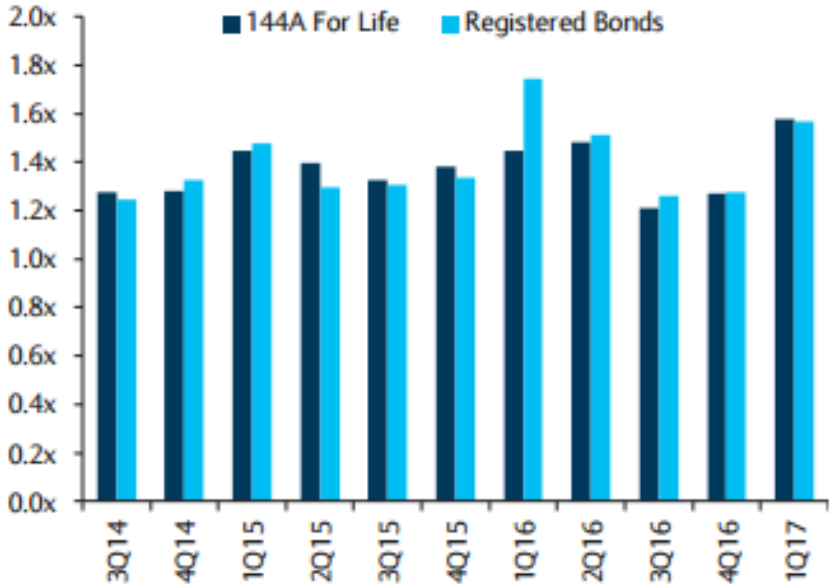
Liquidity

Since its adoption, Rule 144A has greatly increased the liquidity of the securities affected. This is because the institutions can now trade these formerly restricted securities amongst themselves, thereby eliminating the restrictions that are imposed to protect the public.

Historically, limits on the weight of 144a holdings were driven by concerns over liquidity. Concern in this regard has abated as the turnover for 144a securities essentially equals that of registered bonds.

FIGURE 4

Turnover for 144A-for-Life Securities Now Matches That of Registered Bonds



Source: Bloomberg Barclays Indices, MarketAxess

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